

NORTHWESTERN REGIONAL AIRPORT COMMISSION
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northwestern Regional Airport Commission	County Grand Traverse
Audit Date 12/31/04	Opinion Date 3/4/05	Date Accountant Report Submitted to State: 8/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

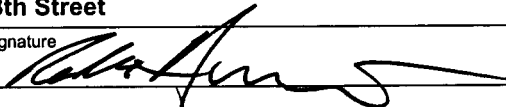
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants			
Street Address 1107 E. 8th Street	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 8/11/05	

CONTENTS

Independent Auditors' Report	1
Balance Sheets	2
Statements of Revenues and Expenses and Changes in Net Assets	3-4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-15
Additional Information	
Independent Auditors' Report on Additional Information	16
Schedules of Revenues, Expenditures and Other Financing Uses – Budget (Cash Basis) and Actual (Accrual Basis Excluding Depreciation and Bad Debt Expense)	17-18
Statements of Changes in Fund Equity (Pre Statement GASB #34)	19
Statements of Capital Contributions	20
Schedules of Contributed Capital	21
Schedules of Accumulated Earnings	22
Officers and Commissioners	23
Independent Auditors' Report on Schedule of Passenger Facility Charge Revenue and Expenses	24
Schedule of Passenger Facility Charge Revenue and Expenses	25
Notes to Schedule of Passenger Facility Charge Revenue and Expenses	26



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Officers and Commissioners of the
Northwestern Regional Airport Commission

We have audited the basic financial statements of the Northwestern Regional Airport Commission (the "Commission") as of December 31, 2004, 2003 and 2002 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwestern Regional Airport Commission as of December 31, 2004, 2003 and 2002, and results of its operation and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Northwestern Regional Airport Commission has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

Harris Group

March 4, 2005

NORTHWESTERN REGIONAL AIRPORT COMMISSION
BALANCE SHEETS
DECEMBER 31, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 709,337	\$ 707,555	\$ 3,037,169
Investments	684,468	2,366,233	2,442,200
Accounts receivable, Trade, net of allowance for doubtful accounts of \$10,000 at December 31, 2004, 2003 and 2002, respectively	298,023	149,664	143,619
Current portion of note receivable	18,612	18,612	
Inventories	37,700	38,120	37,316
Prepaid expenses and construction advances	<u>942,886</u>	<u>1,084,738</u>	<u>632,868</u>
Total current assets	2,691,026	4,364,922	6,293,172
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation	50,266,017	35,622,243	21,813,968
LONG TERM PORTION OF NOTE RECEIVABLE		18,612	
RESTRICTED ASSETS:			
Cash and investments	2,186,989	3,468,133	1,525,439
Passenger facility charges receivable	<u>60,000</u>	<u>37,000</u>	<u>27,600</u>
Total assets	<u>\$ 55,204,032</u>	<u>\$ 43,510,910</u>	<u>\$ 29,660,179</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 435,687	\$ 136,749	\$ 74,406
Accrued expenses	<u>157,091</u>	<u>153,651</u>	<u>130,739</u>
Total current liabilities	592,778	290,400	205,145
LONG-TERM DEBT, less current portion			<u>39,495</u>
Total liabilities	<u>592,778</u>	<u>290,400</u>	<u>244,640</u>
NET ASSETS:			
Invested in capital assets, net of related debt	50,266,017	35,622,243	21,813,968
Restricted for particular use	198,940	196,919	194,233
Unreserved	<u>4,146,297</u>	<u>7,401,348</u>	<u>7,407,338</u>
Total net assets	<u>54,611,254</u>	<u>43,220,510</u>	<u>29,415,539</u>
Total liabilities and net assets	<u>\$ 55,204,032</u>	<u>\$ 43,510,910</u>	<u>\$ 29,660,179</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
OPERATING REVENUES:			
Rental income	\$ 1,084,486	\$ 1,042,896	\$ 921,862
Rent-A-Car concessions	525,168	452,284	485,462
Auto parking	519,860	536,477	565,391
Landing fees	387,463	363,481	388,735
Aviation fuel and oil	184,738	170,882	163,307
State grant		146,800	
Rental car fuel	109,515	91,015	82,353
Advertising	31,928	33,404	38,081
Ground transportation fees	6,913	8,794	22,024
Concessions	3,180	1,887	2,477
Tie downs	3,031	6,027	8,147
TSA Reimbursements	124,632		
Miscellaneous	15,993	10,236	40,919
Total operating revenues	2,996,907	2,864,183	2,718,758
OPERATING EXPENSES:			
Depreciation	993,693	811,464	830,718
Salaries and wages	859,069	750,853	578,219
Utilities	288,631	205,212	193,802
Repairs and maintenance	251,441	249,821	226,005
Payroll taxes and benefits	272,110	231,916	184,043
Advertising and promotion	134,876	57,892	59,310
Janitor services	75,959	65,692	63,952
Rental car fuel	85,177	77,902	70,352
Pension expense	84,191	76,208	60,760
Professional services	581,406	468,926	555,414
Insurance	79,900	62,672	56,660
Equipment rental and repair	108,890	92,737	52,026
Supplies and other expenses	41,284	48,238	39,732
Telephone	27,644	24,084	22,625
CFC expenditures	6,200		
Bad debts	1,637		
Total operating expenses	3,892,108	3,223,617	2,993,618
OPERATING INCOME (LOSS)	(895,201)	(359,434)	(274,860)
NONOPERATING REVENUES (EXPENSES)			
Interest income	24,953	61,854	98,659
Gain (loss) from sale of investments	12,925		
Settlement of special assessment payable		95,331	
Total nonoperating revenues – net	37,878	157,185	98,659
INCOME (LOSS) BEFORE CONTRIBUTIONS	(857,323)	(202,249)	(176,201)

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(continued)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS (from previous page)	(857,323)	(202,249)	(176,201)
CAPITAL CONTRIBUTIONS AND CHARGES	<u>12,248,067</u>	<u>14,007,220</u>	<u>8,371,241</u>
CHANGE IN NET ASSETS	11,390,744	13,804,971	8,195,040
NET ASSETS, beginning of year	<u>43,220,510</u>	<u>29,415,539</u>	<u>21,220,499</u>
NET ASSETS, end of year	<u>\$ 54,611,254</u>	<u>\$ 43,220,510</u>	<u>\$ 29,415,539</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from operating revenues	\$ 2,848,548	\$ 2,858,138	\$ 2,656,343
Cash paid to suppliers and employees	<u>(2,453,765)</u>	<u>(2,779,572)</u>	<u>(1,882,149)</u>
Net cash (used) provided by operating activities	<u>394,783</u>	<u>78,566</u>	<u>774,194</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Note receivable payments received	18,612	18,612	
Purchase of property, plant and equipment	(4,260,003)	(1,320,376)	(1,988,013)
Receipts of passenger facility charges	845,945	698,457	826,516
Receipts of customer facility charges	<u>1,658</u>		
Net cash provided (used) by capital and related financing activities	<u>(3,393,788)</u>	<u>(603,307)</u>	<u>(1,161,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale (Purchase) of investments and restricted cash and investments	2,975,834	(1,866,727)	1,278,573
Interest received	<u>24,953</u>	<u>61,854</u>	<u>98,659</u>
Net cash provided (used) by investing activities	<u>3,000,787</u>	<u>(1,804,873)</u>	<u>1,377,232</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,782	(2,329,614)	989,929
CASH AND CASH EQUIVALENTS, beginning of year	<u>707,555</u>	<u>3,037,169</u>	<u>2,047,240</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 709,337</u>	<u>\$ 707,555</u>	<u>\$ 3,037,169</u>
NONCASH FINANCING AND INVESTING ACTIVITIES			
The Commission had noncash capital and related financing activities as follows:			
Acquisition of property, plant and equipment through grants	<u>\$ 11,377,464</u>	<u>\$ 13,299,363</u>	<u>\$ 7,541,725</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Continued)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$ (895,201)	\$ (359,434)	\$ (274,860)
Adjustments necessary to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	993,693	811,464	830,718
Decrease (Increase) in:			
Accounts receivable – trade	(148,359)	(6,045)	(62,415)
Prepaid expenses	141,852	(451,870)	262,710
Inventories	420	(804)	1,452
Increase (Decrease) in:			
Accounts payable	298,938	62,343	3,213
Accrued expenses	3,440	22,912	13,376
Total adjustments	<u>1,289,984</u>	<u>438,000</u>	<u>1,049,054</u>
Cash provided (used) by operating activities	<u>\$ 394,783</u>	<u>\$ 78,566</u>	<u>\$ 774,194</u>

The accompanying notes are an integral part of these financial statements.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Northwestern Regional Airport Commission (the "Commission") is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the "Airport") in Traverse City, MI.

Defining the Reporting Entity

The Northwestern Regional Airport Commission is the basic level of government that has oversight responsibility and control over all activities related to the operations of the Airport. The Commission is eligible to receive funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities.

The Commission is not included in any other governmental "reporting entity", as defined by Governmental Accounting Standards Board Statement #14, since the Commission has decision making authority, the power to designate management, the ability to significantly influence operations and retain primary accountability for fiscal matters.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Adoption of New Accounting Standards

During the fiscal year 2004, the Northwestern Regional Airport Commission partially adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, issued June 2001, and GASB Statement no. 38, *Certain Financial Statement Disclosures*, issued in 2001. These statements require the Commission to prepare a Management's Discussion and Analysis, make some changes to the notes to the financial statements and change the presentation of net assets.

Cash Equivalents

The Commission considers all unrestricted deposits and temporary investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory consists mainly of maintenance supplies and is stated at the lower of cost or market. Cost is determined using the FIFO (first in, first out) method of inventory valuation.

Revenue Recognition

The Commission earns and records a significant portion of their operating revenues from rental fees charged to airlines who regularly operate flights at the airport, rents charged to airport-based car rental agencies, parking fees from meters, landing fees based on the number of landings and weight of the aircraft, as well as aviation fuel and oil sales. All leases are accounted for as operating leases, whereby revenue is recognized in the period the facility use is provided.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Plant and Equipment

Fixed assets are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. No depreciation is provided on construction in progress until the project is complete and the asset is placed in service. Estimated useful lives of fixed assets are as follows:

Landing facilities and road	10 - 20 years
Building and improvements	10 - 39 years
Furniture and equipment	5 - 33 years

Depreciation recognized on assets acquired or constructed through resources externally restricted for capital acquisition is closed to the appropriate contributed capital account. Net income adjusted by the amount of depreciation on property, plant and equipment acquired in this manner is closed to unrestricted retained earnings. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences

Vacation and sick leave benefits are charged to operations when earned by the Commission's employees. Unused benefits are recorded as a current liability and are included with accrued expenses on the balance sheet. The amount of accrued vacation was \$30,027, \$22,880 and \$19,398 and the accrued sick pay was \$61,303, \$59,519 and \$58,332 at December 31, 2004, 2003 and 2002, respectively.

Contributed Capital

Capital grants received for aid in construction from Federal and State governments are credited to contributed capital fund equity when expenditures under the grants have been made or the liability has been incurred. Passenger facility charge revenues and related interest are credited to contributed capital fund equity in the period the charges are assessed or interest earned.

Pension Plan

All Airport employees are covered under the Michigan Municipal Employees Retirement System. Participants' contributions were funded 100% by the Commission. It is the Commission's policy to fund retirement costs annually as incurred.

Tax Status

The Commission is a governmental entity exempt from income taxes under Section 501(c)(1) of the Internal Revenue Code.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – DEPOSITS AND INVESTMENTS

The Commission's deposits and investments at December 31, 2004, 2003 and 2002 are composed of the following:

	2004			2003			2002		
	Cash and Equivalents	Cash Investments	Restricted Assets	Cash and Equivalents	Cash Investments	Restricted Assets	Cash and Equivalents	Cash Investments	Restricted Assets
Deposits	\$ 708,237	\$	\$ 1,713,046	\$ 705,920	\$ 200,000	\$ 2,925,772	\$ 3,035,544	\$ 300,000	\$ 986,820
Investments		684,468	473,943		2,166,233	542,361		2,142,200	538,619
Petty cash On hand	1,100			1,625			1,625		
Total	<u>\$ 709,337</u>	<u>\$ 684,468</u>	<u>\$ 2,186,989</u>	<u>\$ 707,555</u>	<u>\$ 2,366,233</u>	<u>\$ 3,468,133</u>	<u>\$ 3,037,169</u>	<u>\$ 2,442,200</u>	<u>\$ 1,525,439</u>

Deposits

The above deposits are uncollateralized and are held with financial institutions which provide FDIC insurance coverage. The uninsured balances of these accounts reported by the financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) total \$2,897,931, \$3,542,536 and \$3,263,864 at December 31, 2004, 2003 and 2002, respectively. The amount covered by Federal Depository Insurance is \$442,721.

Investments

The Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. Bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. Investments shown are recorded at cost, which approximate fair value.

The Commission's investments consist primarily of U.S. Bonds and notes. Investments are normally categorized to give an indication of the level of risk assumed by the government unit; however, the investments held occupy a single category defined by SIPC insured and both held by and registered in the name of the Commission's agent. The Commission believes that the investments in these funds comply with the investment authority noted above.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

A summary of the property, plant and equipment is as follows:

	2004	2003	2002
Land	\$ 700,333	\$ 700,333	\$ 700,333
Landing facilities and road	13,948,695	11,170,730	11,150,211
Buildings and improvements	46,057,248	13,558,317	8,711,358
Furniture and equipment	2,674,352	2,174,500	2,080,133
Construction in progress	1,147,580	21,286,862	11,628,968
	64,528,208	48,890,742	34,271,003
Less accumulated depreciation	14,262,191	13,268,499	12,457,035
Net carrying amount	<u>\$ 50,266,017</u>	<u>\$ 35,622,243</u>	<u>\$ 21,813,968</u>

Construction in progress consists of the following:

	2004	2003	2002
Phase III of financial and land use plan for terminal relocation; final design of terminal building, apron and entrance road, including final Phase III water/sewer design and geotechnical services	\$	\$	\$ 1,699,363
Construction of terminal building Phase I and construction of security fencing		11,269,139	9,092,586
Construction of terminal building Phase II, water/sewer and security fencing			971
Construction of Terminal Building Phase III, entrance road, passenger loading bridges, flight information systems and signs, water and sewer (Part B), and the design of taxiway G perimeter road, hold apron, blast wall and service road		5,792,387	373,480
Construction of General Aviation Apron, Runway 18/36 safety area study – Phase I		6,048	
Construction of new south terminal building and associated facilities Phase IV; Construct taxiway “G”, perimeter road hold, apron, blast wall, and improve runway 10/28 safety area Phase I		3,280,856	
Construction of automobile parking areas at the new south terminal		756,733	
Acquire snow removal equipment – Sweeper, Loader, and Blower;; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	387,749		
Construct Aircraft Rescue and Fire Fighting Security Building	376,753		
Local share of construction unallocated to specific project number by the Michigan Department of Transportation	383,078	181,699	462,568
	<u>\$ 1,147,580</u>	<u>\$ 21,286,862</u>	<u>\$ 11,628,968</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT - continued

The cost of future construction and equipment additions in progress at December 31, 2004 is expected to be \$4,500,534, of which \$3,316,142 will be financed through grants. The Commission has satisfied its funding requirements for projects under construction at December 31, 2004.

NOTE 4 – RESTRICTED ASSETS

Restricted assets consist of cash and investments set aside by the Commission for the following reasons:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Proceeds from passenger facility charges	\$ 1,988,049	\$ 3,271,204	\$ 1,331,196
Receivables for passenger facility charges	60,000	37,000	27,600
Proceeds from the sale of auto maintenance building	47,735	47,735	47,735
Allocated proceeds from sale of property by governmental unit	24,205	23,891	23,461
Proceeds from the sale of Aeropark lot	<u>127,000</u>	<u>125,303</u>	<u>123,047</u>
Total	<u>\$ 2,246,989</u>	<u>\$ 3,505,133</u>	<u>\$ 1,553,039</u>

The proceeds from passenger facility charges, plus interest earned on the funds, have been restricted for the construction of the new terminal, in accordance with Federal regulations.

The proceeds from the sales of the auto maintenance building and the governmental property, plus any interest earned on these funds, have been restricted by the Commission for future Airport improvements.

The proceeds from the sale of the Aeropark lot, plus interest earned on the funds, have been restricted for future airport improvements.

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Special assessment payable, due in annual installments of \$3,293 through 2012, plus interest at 8%	\$	\$	\$ 39,495
Less current portion	<u></u>	<u></u>	<u></u>
Long-term portion	<u>\$</u>	<u>\$</u>	<u>\$ 39,495</u>

The Commission has entered a settlement with the local governmental unit for which the assessment is payable, to forgive the debt. In addition, the local governmental unit will repay \$55,836, payable in annual installments until October 15, 2005.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CAPITAL GRANTS

As of December 31, 2004, the Commission has contracted with Federal and State agencies to construct facilities and purchase equipment. Not all of the funding the Commission is eligible to receive has been released to them, as the projects have not been completed. A schedule of grants earned and for which funding is still available is presented below.

Project	Grant Amount	2002	2003	2004	Amount Remaining at 12/31/04
Phase III of financial and land use plan for terminal relocation; final design of terminal building, apron and entrance road, including final Phase III water/sewer design and geotechnical services	\$ 1,822,100	\$ 7,093	\$ 77,810		\$
Construction of terminal building Phase I and construction of security fencing	18,260,200	7,178,903	1,804,712		*
Construction of terminal building Phase II, water/sewer and security fencing	2,630,534	923	2,629,610		*
Construction of Terminal Building Phase III, entrance road, passenger loading bridges, flight information systems and signs, water and sewer (Part B), and the design of taxiway G perimeter road, hold apron, blast wall and service road	10,555,556	354,806	5,147,959	4,779,793	*
Construction of General Aviation apron, Runway 18/36 safety area study – Phase I	146,389		5,443	94,425	*
Construction of new south terminal building and associated facilities Phase IV; Construct taxiway "G", perimeter road, hold apron, blast wall, and improve runway 10/28 safety area Phase I	7,555,555		2,952,769	4,657,434	*
Construction of automobile parking areas at the new south terminal	2,000,000		681,060	1,118,986	*
Acquire snow removal equipment – Sweeper, Loader, and Blower; Update Airport Master Plan; Construct Aircraft Rescue and Fire Fighting Building (Design Only); Construct Snow Removal Equipment Building (Design Only)	1,813,450			368,912	1,444,538
Construct Aircraft Rescue and Fire Fighting Security Building	2,229,518			357,914	1,871,604
Totals		<u>\$ 7,541,725</u>	<u>\$ 13,299,363</u>	<u>\$ 11,377,465</u>	<u>\$ 3,316,142</u>

* Projects considered complete as of December 31, 2004

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – LOCAL GOVERNMENT REPRESENTATION

By resolution adopted during 1990, Grand Traverse County was granted representation by five members and Leelanau County two members on the Commission's Board. At the same time, Antrim, Benzie and Kalkaska Counties were granted the opportunity to join the Commission with two representatives from Antrim County and one member each from Benzie and Kalkaska Counties. As of December 31, 2004, Antrim, Benzie and Kalkaska Counties had not joined the Commission.

NOTE 8 – OPERATING LEASES

The Northwestern Regional Airport Commission entered into a lease agreement on May 1, 1972 with the City of Traverse City. The terms of the lease provide that all Airport land, buildings and appurtenances owned and controlled by the City will be leased for a period of 40 years for \$1, with options to renew. The Commission also accepted responsibility for maintenance and operating expenses related to the property. On July 3, 1990, the City of Traverse City transferred property and assigned its interest in the lease agreement to Grand Traverse and Leelanau Counties. In 1990, the Counties agreed to extend the operating agreement to 50 years, which was reduced to written agreement executed by the counties and the Commission on February 17, 2002. Due to the Commission's creation by contract between the counties, title to the airport merged into the counties (and the Commission) at the time of conveyance from the City, thereby relieving the counties of the need to extend the original lease. The Northwestern Regional Airport Commission continues to operate the airport through 2040 by written agreement of the counties as referenced above.

NOTE 9 – PENSION PLAN

Plan Description

The Northwestern Regional Airport Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Municipal Employees Retirement System, 447 North Canal, Lansing, MI 48917 or by calling (517) 622-3197.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Commission's competitive bargaining units. It is the Commission's policy to annually fund the plan in an amount equal to the annual required contribution.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – PENSION PLAN - continued

Annual Pension Cost

For the year ended December 31, 2004, 2003 and 2002, the Commission's annual pension cost of \$84,191, \$76,208 and \$60,760 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of the actuarial valuation at December 31, 2003, using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8.0% investment rate of return, (b) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level annual percentage of payroll payment required to amortize the unfunded actuarial accrual liability over 30 years.

Three-year Trend Information

	2001	2002	2003
Annual pension cost	\$ 54,280	\$ 50,541	\$ 60,760
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	1,483,779	1,615,689	1,697,334
Actuarial accrued liability (entry age)	1,744,505	1,878,154	2,109,981
Unfunded AAL	260,726	262,465	412,647
Funded ratio	85%	86%	80%
Covered payroll	495,062	524,054	571,016
UAAL as a percentage of covered payroll	53%	50%	72%

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Legal Actions

The Commission is involved in legal actions and may be contingently liable for environmental damages and other costs arising in the ordinary course of business. In the opinion of the Commission, any actions with respect to these matters will not materially affect the Commission's results of operations or financial position.

Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission is included under the County of Grand Traverse's coverage in the Michigan Municipal Risk Management Authority for risk of loss relating to its real property.

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 – COMMITMENTS AND CONTINGENCIES - continued

Risk Management - continued

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members. An individual member's maximum retention on general liability and auto liability is \$50,000. The limits on auto physical damage are \$10,000 per unit and \$30,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the first \$100,000 to be paid by the member. Some members have individual retention levels different than the ones previously stated.

In the event a reinsurance company does not meet its obligations to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund.

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The Commission carries commercial insurance for all other risks of loss including workers' compensation and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to year end, the Commission entered into an agreement to sell \$3,900,000 in Airport Revenue Bonds. These bonds will be used to defray the cost of constructing the new terminal building and support facilities for the Airport.

NOTE 12 – RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2004 presentation.



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the financial statements of the Northwestern Regional Airport Commission for December 31, 2004, 2003 and 2002 appears on page 1. That audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information on pages 17 through 22 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements taken as a whole.

Harris Group

Certified Public Accountants
March 4, 2005

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES –
BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING
DEPRECIATION AND BAD DEBT EXPENSE)
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004			2003	2002
	Budget	Actual	Variance - Favorable (Unfavorable)	Actual	Actual
OPERATING REVENUES:					
Rental income	\$ 1,071,430	\$ 1,084,486	\$ 13,056	\$ 1,042,896	\$ 921,862
Rent-A-Car concessions	462,000	525,168	63,168	452,284	485,462
Auto parking	550,000	519,860	(30,140)	536,477	565,391
Landing fees	368,441	387,463	19,022	363,481	388,735
Aviation fuel and oil	158,100	184,738	26,638	170,882	163,307
State grant				146,800	
Rental car fuel	87,800	109,515	21,715	91,015	82,353
Advertising	33,500	31,928	(1,572)	33,404	38,081
Ground transportation fees	10,350	6,913	(3,437)	8,794	22,024
Concessions	1,550	3,180	1,630	1,887	2,477
Tie downs	6,150	3,031	(3,119)	6,027	8,147
TSA reimbursements	145,750	124,632	(21,118)		
Miscellaneous	82,037	15,993	(66,044)	10,236	40,919
Total operating revenues	2,977,108	2,996,907	19,799	2,864,183	2,718,758
OPERATING EXPENSES:					
Salaries and wages	854,016	859,069	(5,053)	750,853	578,219
Utilities	296,400	288,631	7,769	205,212	193,802
Repairs and maintenance	459,114	251,441	207,673	249,821	226,005
Payroll taxes and benefits	307,938	272,110	35,828	231,916	184,043
Advertising and promotion	153,038	134,876	18,162	57,892	59,310
Janitor services	102,600	75,959	26,641	65,692	63,952
Rental car fuel	95,000	85,177	9,823	77,902	70,352
Pension expense	84,000	84,191	(191)	76,208	60,760
Professional services	720,197	581,406	138,791	468,926	555,414
Insurance	139,900	79,900	60,000	62,672	56,660
Equipment rental and repair	124,020	108,890	15,130	92,737	52,026
Supplies and other expenses	134,732	41,284	93,448	48,238	39,732
Telephone	27,760	27,644	116	24,084	22,625
CFC expenditures		6,200	(6,200)		
Total operating expenses	3,498,715	2,896,778	601,937	2,412,153	2,162,900
OPERATING INCOME (LOSS)	(521,607)	100,129	621,736	452,030	555,858
NONOPERATING REVENUES (EXPENSES)					
Interest income	22,500	24,953	2,453	61,854	98,659
Gain (loss) on sale of investments		12,925	12,925		
Settlement of special assessment payable				95,331	
Total nonoperating revenues – net	22,500	37,878	15,378	157,185	98,659
REVENUES OVER EXPENDITURES	(499,107)	138,007	637,114	609,215	654,517

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF REVENUES, EXPENDITURES AND OTHER FINANCING USES –
BUDGET (CASH BASIS) AND ACTUAL (ACCRUAL BASIS EXCLUDING
DEPRECIATION AND BAD DEBT EXPENSE)
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(continued)

	2004				
	Budget	Actual	Variance - Favorable (Unfavorable)	2003 Actual	2002 Actual
REVENUES OVER EXPENDITURES					
From previous page	\$ (499,107)	\$ 138,007	\$ 637,114	\$ 609,215	\$ 654,517
OTHER FINANCING USES					
Capital grants	203,175		(203,175)		
Capital outlay	(144,150)	(499,853)	(355,703)	(725,092)	(20,848)
Reserve for airline terminal	(3,725,000)	(3,618,297)	106,703	(1,047,155)	(1,691,191)
Reserve for airline terminal/FFE	(600,000)		600,000		
Reserve for rent-a-car-service	(1,000,000)		1,000,000		
Contingency	(100,000)		100,000		
Total other financing uses	(5,365,975)	(4,118,150)	1,247,825	(1,772,247)	(1,712,039)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ (5,865,082)	\$ (3,980,143)	\$ 1,884,939	\$ (1,163,032)	\$ (1,057,522)

NORTHWESTERN REGIONAL AIRPORT COMMISSION
STATEMENTS OF CHANGES IN FUND EQUITY
(Pre Statement GASB #34)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Capital Grants	Retained Earnings		
		Unreserved	Reserved	Total
Balance, January 1, 2002	\$ 12,738,980	\$ 8,290,829	\$ 190,690	\$ 8,481,519
Income (loss) before capital contributions		(176,201)		(176,201)
Allocated interest income		(3,543)	3,543	
Passenger facility charges	772,603			
Passenger facility charges interest income	56,913			
Disbursement of passenger facility charges	(2,162,589)	2,162,589		2,162,589
Capital grants	7,541,725			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(603,029)	603,029		603,029
Balance, December 31, 2002	18,344,603	10,876,703	194,233	11,070,936
Income (loss) before capital contributions		(202,249)		(202,249)
Allocated interest income		(2,686)	2,686	
Passenger facility charges	677,116			
Passenger facility charges interest income	30,741			
Disbursement of passenger facility charges	1,241,552	(1,241,552)		(1,241,552)
Capital grants	13,299,363			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(588,678)	588,678		588,678
Balance, December 31, 2003	33,004,697	10,018,894	196,919	10,215,813
Income (loss) before capital contributions		(857,323)		(857,323)
Allocated interest income		(2,021)	2,021	
Passenger facility charges	838,026			
Passenger facility charges interest income	30,919			
Transfer of passenger facility charges	(2,130,767)	2,130,767		2,130,767
Customer facility charges	1,658			
Capital grants	11,377,464			
Depreciation expense related to property, plant and equipment acquired and constructed with capital grants	(733,088)	733,088		733,088
Balance, December 31, 2004	<u>\$ 42,388,909</u>	<u>\$ 12,023,405</u>	<u>\$ 198,940</u>	<u>\$ 12,222,345</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF CAPITAL CONTRIBUTIONS
DECEMBER 31, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal Grants	\$ 9,948,798	\$ 12,061,343	\$ 7,178,156
State Grants	1,428,666	1,238,020	363,569
Passenger facility charges and interest earned	868,945	707,857	829,516
Customer facility charges	<u>1,658</u>		
Total capital contributions	<u>\$ 12,248,067</u>	<u>\$ 14,007,220</u>	<u>\$ 8,371,241</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF CONTRIBUTED CAPITAL
DECEMBER 31, 2004, 2003 AND 2002**

	Accumulated Contributed Capital Since Inception			Current Increase
	2004	2003	2002	
Federal government	\$ 46,617,326	\$ 36,668,528	\$ 24,607,185	\$ 9,948,798
State government	4,368,925	2,940,259	1,702,239	1,428,666
Local government	39,470	39,470	39,470	
Total capital grants	51,025,721	39,648,257	26,348,894	11,377,464
Less accumulated write-downs through depreciation	10,684,853	9,951,765	9,363,087	733,088
Total capital grants, net of depreciation	40,340,868	29,696,492	16,985,807	10,644,376
Customer facility charges	1,658			1,658
Passenger facility charges, plus related investment earnings	2,046,383	3,308,205	1,358,796	(1,261,822)
Total contributed capital	\$ 42,388,909	\$ 33,004,697	\$ 18,344,603	\$ 9,384,212

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULES OF ACCUMULATED EARNINGS
DECEMBER 31, 2004, 2003 AND 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Current Increase</u>
Cumulative local governmental contributions				
City of Traverse City	\$ 609,701	\$ 609,701	\$ 609,701	\$
Grand Traverse County	503,302	503,302	503,302	
Leelanau County	<u>293,440</u>	<u>293,440</u>	<u>293,440</u>	
Total income from contributions	1,406,443	1,406,443	1,406,443	
Excess of revenues over expenses	<u>10,815,902</u>	<u>8,809,370</u>	<u>9,664,493</u>	<u>2,006,532</u>
Accumulated earnings	<u>\$ 12,222,345</u>	<u>\$ 10,215,813</u>	<u>\$ 11,070,936</u>	<u>\$ 2,006,532</u>

**NORTHWESTERN REGIONAL AIRPORT COMMISSION
OFFICERS AND COMMISSIONERS
DECEMBER 31, 2004**

Jim Minster	Chairman and Commissioner
Dr. Stephen Beeker	Vice Chairman and Commissioner
Tony Buday	Treasurer and Commissioner
Terry Clark	Commissioner
Elizabeth Edwards	Commissioner
Jacqueline Scott	Commissioner
John Stanek	Commissioner
Stephen Cassens	Secretary and Airport Director



Certified Public Accountants

**REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS ON SCHEDULE OF PASSENGER FACILITY
CHARGE REVENUE AND EXPENSES**

Officers and Commissioners of the
Northwestern Regional Airport Commission

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the **Northwestern Regional Airport Commission** (the "Commission") for the years ended December 31, 2004 and 2003 and have issued our report thereon dated March 4, 2005. We have also audited the accompanying Schedules of Passenger Facility Charge Revenue and Expenses of **Northwestern Regional Airport Commission** for the years ended December 31, 2004 and 2003. This schedule is the responsibility of the Commission's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of the schedule in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Schedule of Passenger Facility Charge Revenue and Expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Passenger Facility Charge Revenue and Expenses referred to above presents fairly, in all material respects, the net transactions within the Passenger Facility Charge Account for the year ended December 31, 2004, 2003 and 2002 in conformity with accounting principles generally accepted in the United States.

Internal Control Over Passenger Facility Charge Reporting

In planning and performing our audits, we considered **Northwestern Regional Airport Commission's** internal control over passenger facility charge reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to provide assurance on the internal control over passenger facility charge reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over passenger facility charge reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the officers and commissioners and management of the Northwestern Regional Airport Commission and the Federal Aviation Administration and should not be used for any other purposes.

Harris Group
March 4, 2005

NORTHWESTERN REGIONAL AIRPORT COMMISSION
SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:			
Air carrier remittances	\$ 838,026	\$ 677,116	\$ 772,603
Interest	<u>30,939</u>	<u>30,898</u>	<u>56,969</u>
Total revenues	<u>868,965</u>	<u>708,014</u>	<u>829,572</u>
Expenses:			
Approved PFC expenditures	2,130,767		2,162,589
Bank fees	<u>20</u>	<u>157</u>	<u>56</u>
Total expenditures	<u>2,130,787</u>	<u>157</u>	<u>2,162,645</u>
Other revenue			
Refund of overpayment		<u>1,241,552</u>	
Net passenger facility charge			
Revenue and expenses	<u>\$ (1,261,822)</u>	<u>\$ 1,949,409</u>	<u>\$ (1,333,073)</u>

The accompanying notes are an integral part of these financial statements.

NORTHWESTERN REGIONAL AIRPORT COMMISSION
NOTES TO SCHEDULE OF PASSENGER FACILITY CHARGE REVENUE AND EXPENSES

NOTE A – SUMMARY OF ACCOUNTING POLICIES

General

The Northwestern Regional Airport Commission (the “Commission”) is a governmental entity consisting of representatives from Grand Traverse and Leelanau Counties. The Commission operates and maintains the Cherry Capital Airport (the “Airport”) in Traverse City, Michigan.

Defining the Reporting Entity

The Northwestern Regional Airport Commission is the basic level of government, which has oversight responsibility and control over all activities related to the operations of the Airport. The Commission receives passenger facility charges from surcharges levied by airlines on behalf of the Commission. These revenues, as well as expenses, are required to be accounted for in the Schedule of Passenger Facility Charge Revenue and Expenses as proscribed by the Federal Aviation Administration. The activity reflected in this schedule is accounted for within the contributed capital detailed within the Commission’s general purpose financial statements.

Use of Estimates in the Preparation of the Schedule of Passenger Facility Charge Revenue and Expenses

The preparation of the Schedule of Passenger Facility Charge Revenue and Expenses in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Revenue Recognition

Passenger facility charge revenues are recognized within the period these charges are collected by air carriers on behalf of the Commission.